

Item 402 of Regulation S-K - Executive Compensation

Last Update: January 24, 2007

This guidance replaces the Item 402 of Regulation S-K interpretations in the July 1997 Manual of Publicly Available Telephone Interpretations and the March 1999 Supplement to the Manual of Publicly Available Telephone Interpretations. Some of the interpretations included herein were originally published in the Manual of Publicly Available Telephone Interpretations (as supplemented), and have been revised in some cases to reflect the new rules. The bracketed date following each interpretation is the latest date of publication or revision.

Note: For ease of discussion, we refer to the disclosure requirements and related rules adopted in the Executive Compensation rulemaking, including the August 2006 Executive Compensation and Related Person Disclosure rulemaking (Securities Act Release No. 8732A) and the December 2006 Executive Compensation amendments (Securities Act Release No. 8765), as the “new rules” and we refer to the disclosure requirements and related rules that were changed in the Executive Compensation rulemaking as the “old rules.”

QUESTIONS AND ANSWERS OF GENERAL APPLICABILITY

Section 1. Item 402 – General Guidance

Question 1.01

Question: What was the effective date of the interim final rules adopted in Release No. 33-8765, and what are the relevant compliance dates?

Answer: The interim final rules, which amended the Summary Compensation Table, Grants of Plan-Based Awards Table and Director Compensation Table requirements in Item 402 of Regulation S-K, were effective on December 29, 2006. Compliance with these amendments is required for proxy statements, information statements and registration statements filed on or after December 15, 2006, that are required to include Item 402 disclosure for fiscal years ending on or after December 15, 2006, and for Forms 10-K and 10-KSB for fiscal years ending on or after December 15, 2006. [January 24, 2007]

Question 1.02

Question: A company with a calendar year end plans to file a Form S-3 after December 15, 2006, but before it files its 2006 Form 10-K. Can the company incorporate by reference the Form 10-K for the fiscal year ended December 31, 2005 with disclosure under the old rules?

Answer: Yes. The company would not be required to incorporate by reference the disclosure under the new rules until it is required to include that information in the Form 10-K for the fiscal year ended December 31, 2006. [January 24, 2007]

Question 1.03

Question: When a company that is in the process of restating its financial statements has not filed its Form 10-K for the fiscal year ended December 31, 2005, must the company comply with the new rules when it ultimately files the Form 10-K for the fiscal year ended December 31, 2005?

Answer: The company is not required to comply with the new rules in the Form 10-K for the fiscal year ended December 31, 2005. [January 24, 2007]

Section 2. Item 402(a) - General

None

Section 3. Item 402(b) – Compensation Discussion and Analysis

Question 3.01

Question: Is the guidance regarding Compensation Discussion and Analysis disclosure concerning option grants that is provided in Section II.A.2. of Securities Act Release No. 8732A applicable to other forms of equity compensation?

Answer: The same disclosure provisions governing required disclosure about option grants also govern disclosure about restricted stock and other non-option equity awards. This includes the example of potential material information identified in Item 402(b)(2)(iv) of Regulation S-K, which indicates that it may be appropriate to discuss how the determination is made as to when awards are granted, including awards of equity-based compensation such as options. [January 24, 2007]

Question 3.02

Question: In presenting Compensation Discussion and Analysis disclosure about prior option grant programs, plans or practices, are companies required to provide disclosures about programs, plans or practices that occurred outside the scope of the information contained in the tables and otherwise disclosed pursuant to Item 402 (including periods before and after the information contained in the tables and otherwise disclosed pursuant to Item 402)?

Answer: Yes, in certain cases, depending on a company's particular circumstances, disclosure may be required as contemplated by Instruction 2 to Item 402(b) of Regulation S-K. [January 24, 2007]

Question 3.03

Question: Are companies required to include disclosure about programs, plans or practices relating to option grants in the Compensation Discussion and Analysis disclosure for their first fiscal year ending on or after December 15, 2006, or is this disclosure only required for future fiscal periods?

Answer: Companies are required to include disclosure about programs, plans or practices relating to option grants in the Compensation Discussion and Analysis disclosure for fiscal years ending on or after December 15, 2006, as well as any other periods where necessary as contemplated by Instruction 2 to Item 402(b) of Regulation S-K. [January 24, 2007]

Question 3.04

Question: How does a company determine if it may omit disclosure of performance target levels or other factors or criteria under Instruction 4 to Item 402(b)?

Answer: The new rules clarify that a company should use the same standard for evaluating whether target levels (and other factors or criteria) may be omitted as it would use when making a confidential treatment request under Securities Act Rule 406 or Exchange Act Rule 24b-2; however, no confidential treatment request is required to be submitted in connection with the omission of a performance target level or other factors or criteria. The company must make its determination based on the established standards for what constitutes confidential commercial or financial information, the disclosure of which would cause competitive harm. These standards have largely been addressed in case law, including *National Parks and Conservation Association v. Morton*, 498 F.2d 765 (D.C. Cir. 1974); *National Parks and Conservation Association v. Kleppe*, 547 F.2d 673 (D.C. Cir. 1976); and *Critical Mass Energy Project v. NRC*, 931 F.2d 939 (D.C. Cir. 1991), *vacated & reh'g en banc granted*, 942 F.2d

799 (D.C. Cir. 1991), *grant of summary judgment to agency aff'd en banc*, 975 F.2d 871 (D.C. Cir. 1992). To the extent that a performance target level or other factor or criteria otherwise has been disclosed publicly, a company cannot rely on the instruction to withhold the information. Because Compensation Discussion and Analysis will be subject to staff review, a company may be required to demonstrate that withholding target information meets the confidential treatment standard, and will be required to disclose the information if that standard is not met. A company that relies on the instruction to withhold information must discuss how difficult it will be for the executive or how likely it will be for the company to achieve the undisclosed target level, factor or criteria, which was not required prior to the new rules. [January 24, 2007]

Section 4. Item 402(c) – Summary Compensation Table

Question 4.01

Question: If a person that was not a named executive officer in fiscal years 1 and 2 became a named executive officer in fiscal year 3, must compensation information be disclosed in the Summary Compensation Table for that person for all three fiscal years?

Answer: No, the compensation information only for fiscal year 3 need be provided in the Summary Compensation Table. [January 24, 2007]

Question 4.02

Question: Should a discretionary cash bonus that was not based on any performance criteria be reported in the Bonus column (column (d)) of the Summary Compensation Table pursuant to Item 402(c)(2)(iv) or in the Non-equity Incentive Plan Compensation column (column (g)) pursuant to Item 402(c)(2)(vii)?

Answer: The bonus should be reported in the Bonus column (column (d)). In order to be reported in the Non-equity Incentive Plan Compensation column (column (g)) pursuant to Item 402(c)(2)(vii), the bonus would have to be pursuant to a plan providing for compensation intended to serve as incentive for performance to occur over a specified period that does not fall within the scope of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (“FAS 123R”). The outcome with respect to the relevant performance target must be substantially uncertain at the time the performance target is established and the target is communicated to the executives. The length of the performance period is not relevant to this analysis, so that a plan serving as an incentive for a period less than a year would be considered an incentive plan under Item 402(a)(6)(iii). Further,

amounts earned under a plan that meets the definition of a non-equity incentive plan, but that permits the exercise of negative discretion in determining the amounts of bonuses, generally would still be reportable in the Non-equity Incentive Plan Compensation column (column (g)). The basis for the use of various targets and negative discretion may be material information to be disclosed in the Compensation Discussion and Analysis. If, in the exercise of discretion, an amount is paid over and above the amounts earned by meeting the performance measure in the non-equity incentive plan, that amount should be reported in the Bonus column (column (d)). [January 24, 2007]

Question 4.03

Question: Instruction 2 to Item 402(c)(2)(iii) and (iv) provides that companies are to include in the Salary column (column (c)) or the Bonus column (column (d)) any amount of salary or bonus forgone at the election of a named executive officer under which stock, equity-based, or other forms of non-cash compensation have been received instead by the named executive officer. In a situation where the value of the stock, equity-based or other form of non-cash compensation is the same as the amount of salary or bonus foregone at the election of the named executive officer, does this mean the amounts are only reported in the Salary or Bonus column and not in any other column of the Summary Compensation Table?

Answer: Yes, under Instruction 2 to Item 402(c)(2)(iii) and (iv) the amounts should be disclosed in the Salary or Bonus column, as applicable. The result would be different if the amount of salary or bonus foregone at the election of the named executive officer was less than the value of the equity-based compensation received instead of the salary or bonus, or if the agreement pursuant to which the named executive officer had the option to elect settlement in stock or equity-based compensation was within the scope of FAS123R. In the former case, the incremental value of an equity award would be reported in the Stock Awards or Option Awards columns, and in the latter case the award would be reported in the Stock Awards or Option Awards columns. In both of these special cases, the amounts reported in the Stock Awards and Option Awards columns would be the dollar amounts recognized for financial statement reporting purposes with respect to the applicable fiscal year, and footnote disclosure should be provided regarding the circumstances of the awards. Appropriate disclosure about equity-based compensation received instead of salary or bonus must be provided in the Grants of Plan-Based Awards Table, the Outstanding Equity Awards at Fiscal Year End Table and the Option Exercises and Stock Vested Table. [January 24, 2007]

Question 4.04

Question: The Instruction to Item 402(c)(2)(v) and (vi) provides that a company disclose the assumptions made in the valuation for awards reported in the Option Awards column (column (e)) and the Stock Awards column (column (f)) by reference to a discussion of those assumptions in the registrant's financial statements, footnotes to the financial statements, or discussion in the Management's Discussion and Analysis. Is the disclosure of valuation assumptions limited to awards made in the covered fiscal year or does it include any award reported in column (e) or (f) even if granted in an earlier fiscal year?

Answer: The disclosure of valuation assumptions should relate to any award reported in the Option Awards column (column (e)) or the Stock Award column (column (f)). [January 24, 2007]

Question 4.05

Question: If an equity award is made after the end of the fiscal year but relates to services performed in that completed fiscal year, when should that equity award be reported in the Summary Compensation Table and the Grants of Plan-Based Awards Table?

Answer: Under Item 402(c)(2)(v) and (vi), the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year must be reported in the Summary Compensation Table for stock and option awards. With respect to the Grants of the Plan-Based Awards Table, under Item 402(d)(1), information as to the awards is to be reported in the fiscal year in which the award was made. In preparing the Compensation Discussion and Analysis under Item 402(b), companies should consider the application of Instruction 2 to Item 402(b) with respect to awards granted after the end of the fiscal year but relating back to service in that completed fiscal year. [January 24, 2007]

Question 4.06

Question: Instruction 3 to Item 402(c)(2)(viii) provides that where the amount of the change in the actuarial present value of the accumulated pension benefit computed pursuant to Item 402(c)(2)(viii)(A) is negative, the amount should be disclosed by footnote but should not be reflected in the sum reported in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column (column (h)). When a company aggregates all of the decreases and increases in the value of a named executive officer's individual pension plans, should the company subtract negative values from positive values or should any individual plan decreases be treated as a zero?

Answer: In applying this instruction, a company may subtract negative values when aggregating the changes in the actuarial present values of the accumulated benefits under the plans, and apply the “no negative number” position of the instruction for the final number after aggregating all plans. Under this approach, if one plan had a \$500 increase and another plan had a \$200 decrease, then the net change in the actuarial present value of the accumulated pension benefits would be \$300. [January 24, 2007]

Question 4.07

Question: Item 402(c)(2)(ix)(A) and Instruction 4 to that item require a company to report as “All Other Compensation” perquisites and personal benefits if the total amount exceeds \$10,000, and to identify each such item by type, regardless of the amount. If the \$10,000 threshold is otherwise exceeded, must a company list by type those perquisites and personal benefits as to which there was no aggregate incremental cost to the company, or as to which the executive officer fully reimbursed the company for such cost?

Answer: If a perquisite or other personal benefit has no aggregate incremental cost, it must still be separately identified by type. Any item for which an executive officer has actually fully reimbursed the company for its total cost should not be considered a perquisite or other personal benefit and therefore need not be separately identified by type. [January 24, 2007]

Question 4.08

Question: Item 402(c)(2)(ix)(C) indicates that stock purchased at a discount needs to be disclosed unless that discount is available generally to all security holders or to all salaried employees. The compensation cost, if any, is computed in accordance with FAS 123R. Footnote 221 to Securities Act Release No. 8732A seems to indicate that sometimes under FAS 123R there is no compensation cost. Does the footnote indicate that 423 plans must be disclosed?

Answer: No. Typically 423 plans need to be broad based and non-discriminatory to qualify for preferential tax treatment, which would be within the exception, even if they require some minimum of work hours – such as 10 hours a week – in order to be in the plan or the discount is larger than the 5% example in the footnote. The footnote explains that even if there is some discount, there may not be compensation cost under the accounting standard.

Question 4.09

Question: Item 402(c)(2)(ix)(G) requires disclosure of the dollar value of any dividends when those amounts were not factored into the grant date fair

value required to be reported in the Grants of Plan-Based Awards Table. With regard to the treatment of dividends, dividend equivalents or other earnings on equity awards, is disclosure required in the All Other Compensation column (column (i)) if disclosure was not previously provided in the Grants of Plan-Based Awards Table for that named executive officer?

Answer: The company should analyze whether the dividends, dividend equivalents or other earnings would have been factored into the grant date fair value in accordance with FAS 123R. In this regard, the disclosure turns on how the rights to the dividends are structured and whether or not that brings them within the scope of FAS123R for the purpose of the grant date fair value calculation. [January 24, 2007]

Question 4.10

Question: Are deferred compensation payouts, lump sum distributions under Section 401(k) plans and earnings on 401(k) plans required to be disclosed in the Summary Compensation Table?

Answer: Non-qualified deferred compensation payouts are not disclosed in the Summary Compensation Table, but are rather disclosed in the Aggregate Withdrawals/ Distributions column (column (e)) of the Nonqualified Deferred Compensation Table. Lump sum distributions from 401(k) plans are not disclosed in the Summary Compensation Table, because the compensation that was deferred into the 401(k) plan was already disclosed in the Summary Compensation Table, as would be any company matching contributions. Earnings on 401(k) plans are not disclosed in the Summary Compensation Table because the disclosure requirement only extends to above-market or preferential earnings on non-qualified deferred compensation. [January 24, 2007]

Section 5. Item 402(d) - Grants of Plan Based Awards Table

Question 5.01

Question: If an equity incentive plan award is denominated in dollars, but payable in stock, how is it disclosed in the Grants of Plan-Based Awards Table since the headings for equity-based awards (columns (f), (g) and (h)) only refer to numbers and not dollars?

Answer: The award should be disclosed in the Grants of Plan-Based Awards Table by including the dollar value and a footnote to explain that it will be paid out in stock in the form of whatever number of shares that amount translates into at the time of the payout. In this limited circumstance, and if all the awards in this column are structured in this manner, it is

acceptable to change the captions for columns (f) through (g) to show “(\$)” instead of “(#).” [January 24, 2007]

Question 5.02

Question: If all of the non-equity incentive plan awards were made for annual plans, where the awards have already been earned, may the company change the heading over columns (c), (d) and (e) of the Grants of Plan-Based Awards Table that refers to “Estimated future payouts under non-equity incentive plan awards?”

Answer: Yes, if the awards were made in the same year they were earned and the earned amounts are therefore disclosed in the Summary Compensation Table, the heading over columns (c), (d) and (e) may be changed to “Estimated possible payouts under Non-equity incentive plan awards.”

Section 6. Item 402(e) – Narrative disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

None

Section 7. Item 402(f) - Outstanding Equity Awards at Fiscal Year-End Table

Question 7.01

Question: Should a company include in the Outstanding Equity Awards at Fiscal Year-End Table in-kind earnings on restricted stock awards that have earned share dividends or share dividend equivalents?

Answer: Yes. Outstanding in-kind earnings at the end of the fiscal year should be included in the table. However, in-kind earnings that vested during the fiscal year, or in-kind earnings that are already vested when the dividends are declared, instead should be reported in the Option Exercises and Stock Vested Table under Item 402(g) of Regulation S-K. [January 24, 2007]

Section 8. Item 402(g) – Option Exercises and Stock Vested Table

Question 8.01

Question: When reporting on the exercise or settlement of a stock appreciation right in the Number of Shares Acquired on Exercise column (column (b)) of the Option Exercises and Stock Vested Table, should a company report the net number of shares received upon exercise, or the gross number of shares underlying the exercised stock appreciation right?

Answer: As would be the case with the cashless exercise of options, the total number of shares underlying the exercised stock appreciation right should be reported in column (b), rather than just the amount representing the increase of the stock price since the grant of the award. A footnote or narrative accompanying the table could explain and quantify the net number of shares received. [January 24, 2007]

Section 9. Item 402(h) – Pension Benefits

Question 9.01

Question: Instruction 2 to Item 402(h)(2) indicates that the company must use the same assumptions used for financial reporting purposes under generally accepted accounting principles, except for the retirement age assumption, when computing the actuarial present value of a named executive officer's accumulated benefit under each pension plan. May the company deviate from the assumptions used for accounting purposes given the individual circumstances of the named executive officer or the plan?

Answer: No. [January 24, 2007]

Question 9.02

Question: Instruction 2 to Item 402(h)(2) specifies that in calculating the actuarial present value of a named executive officer's accumulated pension benefits, the assumed retirement age is to be the normal retirement age as defined in the plan, or, if not defined, the earliest time at which the named executive officer may retire without any benefit reduction. While many plans have a specifically defined retirement age, some plans also have a provision that allows participants to retire at an earlier age without any benefit reduction. In this case, which age should the company use in making its calculation?

Answer: When a plan has a stated "normal" retirement age and also a younger age at which retirement benefits may be received without any reduction in benefits, the younger age should be used for determining pension benefits. The older age may be included as an additional column. [January 24, 2007]

Question 9.03

Question: How do you measure the actuarial present value of the accumulated benefit of a pension plan in the situation where a particular benefit is earned at a specified age? For instance, if a named executive officer at age 40 is granted an award if he stays with his company until age 60, how

should the company measure this benefit when the executive is age 50 and the normal retirement age under the plan is age 65?

Answer: The computation should be based on the accumulated benefit as of the pension measurement date, assuming that the named executive continues to live and will work at the company until retirement and thus will reach age 60 and receive the award. [January 24, 2007]

Question 9.04

Question: Should assumptions regarding pre-retirement decrements be factored into the calculation of the actuarial present value of a named executive officer's accumulated benefit under a pension plan?

Answer: For purposes of calculating the actuarial present value for the Pension Benefits Table, the registrant should assume that each named executive officer will live to and retire at the plan's normal retirement age (or the earlier retirement age if the named executive officer may retire with unreduced benefits) and ignore for the purposes of the calculations what actuaries refer to as pre-retirement decrements. Therefore, the assumptions used for financial statement reporting purposes that should be used for calculating the actuarial present value are the discount rate, the lump sum interest rate (if applicable), post-retirement mortality, and payment distribution assumptions. Any contingent benefits arising upon death, early retirement or other termination of employment events should be disclosed in the post-employment narrative disclosure required under Item 402(j) of Regulation S-K. [January 24, 2007]

Section 10. Item 402(i) – Non-qualified Deferred Compensation Table

Question 10.01

Question: The instruction to Item 402(i)(2) of Regulation S-K requires footnote disclosure quantifying the extent to which amounts reported in the table were reported as compensation in the Summary Compensation Table in the last completed fiscal year and in previous fiscal years. What should be noted by footnote when amounts were not previously reported (either because of the transition guidance in Securities Act Release No. 8732A or when a named executive officer appears in the table for the first time)?

Answer: The purpose of the instruction is to facilitate an understanding that non-qualified deferred compensation is reported elsewhere within the executive compensation disclosure over time. Amounts only need to be disclosed by footnote if they were actually previously reported in the Summary Compensation Table. [January 24, 2007]

Section 11. Item 402(j) – Potential payments upon termination or change-in-control

None

Section 12. Item 402(k) - Director Compensation Table

Question 12.01

Question: Is director compensation disclosure required under Item 402(k) of Regulation S-K for a person who served as a director for part of the last completed fiscal year, even if the person was no longer a director at the end of the last completed fiscal year?

Answer: Yes. If a person served as a director during any part of the last completed fiscal year the person must be included in the Director Compensation Table. [January 24, 2007]

Question 12.02

Question: Is director compensation disclosure required under Item 402(k) of Regulation S-K for a person who served as a director during the last completed fiscal year but will not stand for re-election the next year?

Answer: Yes. If a person served as a director during any part of the last completed fiscal year the person must be included in the Director Compensation Table. [January 24, 2007]

INTERPRETIVE RESPONSES REGARDING PARTICULAR SITUATIONS

Section 1. Item 402 – General Guidance

- 1.01 Whether a spin-off is treated like the IPO of a new “spun-off” registrant for purposes of Item 402 disclosure depends on the particular facts and circumstances. When determining whether disclosure of compensation before the spin-off is necessary, the “spun-off” registrant should consider whether it was a reporting company or a separate division before the spin-off, as well as its continuity of management. For example, if a parent company spun off a subsidiary which conducted one line of the parent company’s business, and before and after the spin-off the executive officers of the subsidiary: (1) were the same; (2) provided the same type of services to the subsidiary; and (3) provided no services to the parent, historical compensation disclosure likely would be required. In contrast, if a parent company spun off a newly formed subsidiary consisting of portions of several different parts of the parent’s business and having new management, it is more likely that the spin-off could be treated as the IPO of a new “spun-off” registrant. [January 24, 2007]
- 1.02 In a merger situation, there is no concept of “successor” compensation. Therefore, the surviving company in the merger need not report on compensation paid by predecessor corporations that disappeared in the merger. Similarly, a parent corporation would not pick up compensation paid to an employee of its subsidiary prior to the time the subsidiary became a subsidiary (i.e., when it was a target). Moreover, income paid by such predecessor companies need not be counted in computing whether an individual is a named executive officer of the surviving corporation. A different result may apply, however, in situations involving an amalgamation or combination of companies. [January 24, 2007]
- 1.03 A subsidiary of a public company is going public. The officers of the subsidiary previously were officers of the parent, and in some cases all of the work that they did for the parent related to the subsidiary. The registration statement of the subsidiary would not be required to include compensation previously awarded by the parent corporation. The subsidiary would start reporting as of the IPO date. [January 24, 2007]
- 1.04 Instruction 1 to Item 402(a)(3) states that the generally required compensation disclosure regarding highly compensated executive officers need not be set forth for an executive officer (other than the principal executive officer or principal financial officer) whose total compensation for the last fiscal year, reduced by the amount required to be disclosed by Item 402(c)(2)(viii), did not exceed \$100,000. A reporting company that recently changed its fiscal year end from December 31st to June 30th is preparing its transition report for the 6-month period ended

June 30th, having filed its Form 10-K for the fiscal year ended 6 months earlier on December 31st. The reporting company generally has a group of executive officers that earn in excess of \$100,000 each year. In addition, during the 6-month period, the company made an acquisition that resulted in new executive officers that, on an annual basis, will earn more than \$100,000. During the 6-month period, however, none of these existing or new officers earned more than \$100,000 in total compensation. The company asked whether disclosure under Item 402 regarding these officers therefore would not be required in the report being prepared for the 6-month period. The Division staff advised that no disclosure need be provided with respect to executive officers that started employment with the company during the 6-month period and did not, during that period of employment, earn more than \$100,000. With respect to executive officers that were employed by the company both during and before the 6-month period, however, Item 402 disclosure would have to be provided for those who earned in excess of \$100,000 during the one-year period ending June 30th (the same ending date as the six-month period, but extending back over 6 months of the preceding fiscal year). [January 24, 2007]

- 1.05 If a company changes its fiscal year, report compensation for the “stub period,” and do not annualize or restate compensation. In addition, report compensation for the last three full fiscal years, in accordance with Item 402 of Regulation S-K. For example, in late 1997 a company changed its fiscal year end from June 30 to December 31. In the Summary Compensation Table, provide disclosure for each of the following four periods: July 1, 1997 to December 31, 1997; July 1, 1996 to June 30, 1997; July 1, 1995 to June 30, 1996; and July 1, 1994 to June 30, 1995. Continue providing such disclosure for four periods (three full fiscal years and the stub period) until there is disclosure for three full fiscal years after the stub period (December 31, 2000 in the example). If the company was not a reporting company and was to do an IPO in February 1998, it would furnish disclosure for both of the following periods in the Summary Compensation Table: July 1, 1997 to December 31, 1997; and July 1, 1996 to June 30, 1997. [January 24, 2007]
- 1.06 Compensation of both incoming and departing executives should not be annualized. [January 24, 2007]
- 1.07 Where a named executive officer exercises “reload” options and receives additional options upon such exercise, the registrant is required to report the additional options as an option grant in the Grants of Plan-Based Awards Table. In the Summary Compensation Table, the registrant would report the dollar amount recognized for the additional options for financial statement purposes with respect to the fiscal year in accordance with FAS 123R. [January 24, 2007]
- 1.08 Options or other rights to purchase securities of the parent or a subsidiary of the registrant should be reported in the same manner as compensatory options to purchase registrant securities. [January 24, 2007]

- 1.09 A caller asked whether an executive officer, other than the principal executive officer or principal financial officer, could be considered a “named executive officer” if the executive officer became a non-executive employee during the last completed fiscal year and did not depart from the registrant. If an executive officer becomes a non-executive employee of a registrant during the preceding fiscal year, consider the compensation the person received during the entire fiscal year for purposes of determining whether the person is a named executive officer for that fiscal year. If the person thus would qualify as a named executive officer, disclose all of the person’s compensation for the full fiscal year, *i.e.* compensation for when the person was an executive officer and for when the person was a non-executive employee. [January 24, 2007]
- 1.10 A parent and its subsidiary are both Exchange Act reporting companies. Some of the executive officers of the parent may receive a portion of their compensation from the subsidiary corporation. The Division staff advised that if an executive spends 100% (or near 100%) of the executive’s time for the subsidiary but is paid by the parent, then the compensation paid by the parent has to be reported in the executive compensation table of the subsidiary. However, if an allocation of the monies paid by the parent would be necessary because the executive officer splits time between the parent and the subsidiary, the payments made by the parent need not be included in the subsidiary’s executive compensation table. In addition, in the event that the subsidiary pays a management fee to the parent for use of the executives, disclosure of the structure of the management agreement and fees would have to be reported under Item 404. Compensation paid by the subsidiary to executives of the parent company must be included in the parent’s executive compensation table if such payments are paid directly by the subsidiary. If the payments are part of a management contract, disclosure of the structure of the management agreement and fees would have to be reported under Item 404. [January 24, 2007]
- 1.11 A company’s reimbursement to an officer of legal expenses with respect to a lawsuit in which the officer was named as a defendant, in her capacity as an officer, is not disclosable pursuant to Item 402 of Regulation S-K. [January 24, 2007]

Section 2. Item 402(a) – General

None

Section 3. Item 402(b) – Compensation Discussion and Analysis

None

Section 4. Item 402(c) – Summary Compensation Table

- 4.01 A caller inquired whether a filing that is made on January 2 must include compensation for the previous year ended December 31 when compensation information may not be incorporated by reference into the filing. The Division staff's position is that compensation must be included for such year because registrants should have those numbers available. However, if bonus or other amounts for the prior year have not yet been determined, this should be noted in a footnote together with disclosure regarding the date the bonus will be determined, any formula or criteria that will be used and any other pertinent information. When determined, the bonus or other amount must be disclosed in a filing under Item 5.02(f) of Form 8-K. Further, where the compensation disclosure depends upon assumptions used in the financial statements and those financial statements have not yet been audited, it is permissible for the company to note this fact in the compensation disclosure. [January 24, 2007]
- 4.02 Item 402(c)(2)(viii) of Regulation S-K and Item 402(h)(2)(iii) and (iv) of Regulation S-K require amounts that are computed as of the same pension plan measurement date used for financial reporting purposes with respect to the company's audited financial statements for the last completed fiscal year. The rules reference the same pension plan measurement date as is used for financial statement reporting purposes so that the company would not have to use different assumptions when computing the present value for executive compensation disclosure and financial reporting purposes. The pension plan measurement date for most pension plans is September 30, which, in the case of calendar-year companies, does not correspond with the company's fiscal year. This means that the pension benefit information will be presented for a period that differs from the fiscal year period covered by the disclosure. Under recent changes in pension accounting standards, the pension measurement date will be changed to be the same as the end of the company's fiscal year. In the year in which companies change their pension measurement date, they may use an annualized approach for the disclosure of the change in the value of the accumulated pension benefits in the Summary Compensation Table (thereby adjusting the 15 month period to a 12 month period) when the transition in pension plan measurement date occurs, so long as the company includes disclosure explaining it has followed this approach. The actuarial present value computed on the new measurement date should be reported in the Pension Benefits Table. [January 24, 2007]
- 4.03 A registrant need not report earnings on compensation that is deferred on a basis that is not tax qualified as above-market or preferential earnings within the meaning of Item 402(c)(2)(viii)(B) where the return on such earnings is calculated in the same manner and at the same rate as earnings on externally managed investments to employees participating in a tax-qualified plan providing for broad-based employee participation. See n. 43 to Release No. 34-31327 (Oct. 16, 1992); American Society of Corporate Secretaries (January 6, 1993). For example, many issuers provide for deferral of salary or bonus amounts not

covered by tax-qualified plans where the return on such amounts is the same as the return paid on amounts invested in an externally managed investment fund, such as an equity mutual fund, available to all employees participating in a non-discriminatory, tax-qualified plan (e.g., 401(k) plan). Although this position generally will be available for so-called “excess benefit plans” (as defined for 16(b)-3(b)(2) purposes), it may not be appropriately applied in the case of a pure “top-hat” plan or SERP (Supplemental Employee Retirement Plan) that bears no relationship to a tax-qualified plan of the issuer. When in doubt, consult the staff. For a deferred compensation plan with a cash-based, interest-only return, earnings would not be reportable as “above-market” unless the rate of interest exceeded 120% of the applicable federal long-term rate, as stated in Instruction 2 to Item 402(c)(2)(viii). Non-qualified deferred compensation plan earnings that are “above-market or preferential” are reportable even if the deferred compensation plan is unfunded and thus subject to risk of loss of principal. [January 24, 2007]

Section 5. Item 402(d) - Grants of Plan Based Awards Table

- 5.01 If plans do not include thresholds or maximums (or equivalent items), the registrant need not include arbitrary sample threshold and maximum amounts. For example, for a non-equity incentive plan that does not specify threshold or maximum payout amounts (for example, a plan in which each unit entitles the executive to \$1.00 of payment for each \$.01 increase in earnings per share during the performance period), threshold and maximum levels need not be shown as “0” and “N/A” because the payouts theoretically may range from nothing to infinity. Rather, an appropriate footnote should state that there are no thresholds or maximums (or equivalent items). [January 24, 2007]

Section 6. Item 402(e) – Narrative disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

None

Section 7. Item 402(f) - Outstanding Equity Awards at Fiscal Year-End Table

None

Section 8. Item 402(g) – Option Exercises and Stock Vested Table

None

Section 9. Item 402(h) – Pension Benefits

- 9.01 If the actuarial present value of the accumulated pension benefit for a named executive officer on the pension measurement date of the prior fiscal year was \$1,000,000, and the present value of the accumulated pension benefit on the

pension measurement date of the most recently completed fiscal year is \$1,000,000, but during the most recently completed fiscal year the named executive officer earned and received an in-service distribution of \$200,000, then \$200,000 should be reported as the increase in pension value in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column (column (h)) of the Summary Compensation Table. [January 24, 2007]

Section 10. Item 402(i) – Non-qualified Deferred Compensation Table

None

Section 11. Item 402(j) – Potential payments upon termination or change-in-control

None

Section 12. Item 402(k) - Director Compensation Table

- 12.01 Consulting arrangements between the registrant and a director are disclosable as director compensation under Item 402(k)(2)(vii), even where such arrangements cover services provided by the director to the issuer other than as director (e.g., as an economist). [January 24, 2007]
- 12.02 A company has an executive officer (who is not a named executive officer) that is also a director, but who does not receive any additional compensation for services provided as a director. The compensation that this director receives for services as an executive officer does not need to be reported in the Director Compensation Table under Item 402(k) of Regulation S-K. The director may be omitted from the table, provided that footnote or narrative disclosure explains that the director is an executive officer, other than a named executive officer, who does not receive any additional compensation for services provided as a director. [January 24, 2007]